

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

CHRISTINA A. STUTZ

JUNE 8, 2010



DOCKET NO. 2009-473-WS

**Application of Tega Cay Water Service,
Incorporated for Adjustment of Rates and
Charges**

DIRECT TESTIMONY OF CHRISTINA A. STUTZ

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2009-473-WS

IN RE: APPLICATION OF TEGA CAY WATER SERVICE, INCORPORATED

FOR ADJUSTMENT OF RATES AND CHARGES

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
OCCUPATION.**

A. My name is Christina A. Stutz. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff ("ORS") as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science degree with a major in Accounting and
minor in Criminal Justice from the University of South Carolina in 2004. In April
2005, I began my employment with ORS, where I have been performing
regulatory reviews of utility companies.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
PROCEEDING?**

A. The purpose of my testimony is to set forth my findings and
recommendations resulting from ORS's examination of the application of Tega Cay

Water Service, Inc. ("TCWS" or "Applicant") in this docket. The application was filed on February 16, 2010.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF TEGA CAY'S APPLICATION.

A. ORS's examination of the Company's application for Adjustments of Rates and Charges consisted of three major steps. In step one, ORS verified that the operating experience and rate base, reported by the utility in its application, were supported by the Company's accounting books and records for the test year. In the second step, ORS tested the underlying transactions in the books and records for the same period to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Lastly, our examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base in accordance with generally accepted regulatory principles and Public Service Commission of South Carolina ("Commission" or "PSC") orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the Application of Tega Cay Water Service, Inc.:

- Audit Exhibit CAS-1: Operating Experience, Rate Base, and Rates of Return for Combined Operations

- Audit Exhibit CAS-2: Operating Experience, Rate Base, and Rates of Return for Water Operations
- Audit Exhibit CAS-3: Operating Experience, Rate Base, and Rates of Return for Sewer Operations
- Audit Exhibit CAS-4: Explanation of Accounting and Pro forma Adjustments
- Audit Exhibit CAS-5: Depreciation and Amortization Expense Adjustment
- Audit Exhibit CAS-6: Computation of Income Taxes
- Audit Exhibit CAS-7: Cash Working Capital Allowance
- Audit Exhibit CAS-8: Return on Equity

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases. These exhibits show various aspects of TCWS's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CAS-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit CAS-1 shows TCWS's operating experience, rate base, and rates of return for water and wastewater operations for the test year ended December 31, 2008. The exhibit's format is designed to reflect the Application per books and ORS's proposed accounting and pro forma adjustments necessary to normalize the results of TCWS's test year operations.

Column (1) shows the Application per books calculated by TCWS for the test year ended December 31, 2008.

Column (2) shows ORS's proposed accounting and pro forma adjustments designed to normalize the Application per books. An explanation of each adjustment is contained in Audit Exhibit CAS-4.

Column (3) shows ORS's result of a normalized test year for TCWS by adding columns (1) and (2). After the accounting and pro forma adjustments, Net Income for Return of \$158,095 was computed using Total Operating Revenues of \$1,131,299, less Total Operating Expenses of \$973,204. Total Rate Base amounted to \$2,979,491 producing a Return on Rate Base of 5.31%. As shown on Audit Exhibit CAS-8, the resulting Return on Equity was 3.83%.

Column (4) shows Applicant's proposed increase recalculated by ORS and the calculation of taxes associated with the proposed increase. An explanation of each adjustment is contained in Audit Exhibit CAS-4.

Column (5) shows the effect of the Applicant's proposed rate increase by adding columns (3) and (4). Net Income for Return of \$304,962 was computed using Total Operating Revenues of \$1,371,446, less Total Operating Expenses of \$1,066,484. Total Rate Base amounted to \$2,979,491 producing a Return on Rate Base of 10.24%. As shown on Audit Exhibit CAS -8, the resulting return on equity was 14.38%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CAS-4.

A. For comparative purposes, ORS and Applicant's adjustments are both presented in Audit Exhibit CAS-4.

Adjustment 1 – The ORS Water and Wastewater Department proposes to normalize water and sewer revenues for the test year. Details of the adjustments for \$2,257

remove the deferred maintenance account of (\$18,395) as ordered in Order No. 2006-582, Docket No. 2006-97-WS. The total adjustment was \$13,813. TCWS's proposed adjustment for inflation was not included in ORS's adjustment.

Adjustment 8 – ORS proposes to reduce maintenance testing expenses by (\$7,817) to remove pass-through DHEC fees for the Safe Drinking Water Act. In addition, ORS proposes an adjustment to remove undocumented expenses of (\$105). ORS also proposes to adjust for the difference between DHEC fees billed of \$10,481, and the per books amount of \$18,651, for an adjustment of (\$8,170). The total adjustment to maintenance testing was (\$16,092).

Adjustment 9 – ORS does not propose to adjust chemicals for inflation since any potential impact is neither known nor measurable. This type of adjustment has been disallowed by the Commission in prior cases.

Adjustment 10 – ORS proposes to adjust transportation expenses to reflect allocations based on employee usage of 43 vehicles in South Carolina. The usage of these vehicles, including fuel and repairs, amounted to total annual expense per vehicle of \$7,253. This unit cost was then allocated to 13 operators based on the percentage of time each employee worked on TCWS directly. One operator was not allocated transportation costs, since the employee was not proven to have an operating vehicle. ORS computed vehicle expenses for these 13 operators of \$24,016, less the per book amount of \$37,915, for an adjustment of (\$13,899). TCWS's proposed adjustment for inflation was not included in ORS's adjustment.

Adjustment 11 – ORS proposes to charge a portion of employees' salaries, taxes, and benefits to plant for time spent on capital projects. ORS computed operating

1 and other office expenses for inflation. ORS did not make an adjustment for
2 inflation.

3 Adjustment 15 – ORS proposes to amortize rate case expenses incurred for this rate
4 case proceeding. ORS verified documented rate case expenses of \$71,588 as of
5 April 30, 2010. This amount was amortized over a five-year period resulting in the
6 test year amount of \$14,318, less the per book amount of \$54,588, for an
7 adjustment of (\$40,270).

8 Adjustment 16 – ORS proposes to annualize pension and other benefits associated
9 with the salary adjustment for operators and office employees. ORS did not
10 include pension and benefits for part-time employees as TCWS does not pay
11 benefits to these employees. Total ORS computed pension and other benefits was
12 \$66,272, less the per book amount of \$62,718, resulting in an adjustment of
13 \$3,554.

14 Adjustment 17 – ORS proposes to remove undocumented expenditures of (\$592)
15 from office utilities. TCWS proposed an adjustment to office utility expenses for
16 inflation. ORS did not make an adjustment for inflation.

17 Adjustment 18 – ORS proposes to adjust miscellaneous expenses for
18 nonallowable expenditures of (\$1,444). These nonallowable expenditures
19 included undocumented expenses, penalties, and other nonallowable expenses.

20 Adjustment 19 – ORS proposes to annualize depreciation expense and adjust for net
21 plant additions, capitalized time, items incorrectly capitalized, and plant to be paid
22 by third parties. The details of the depreciation expense adjustment are shown in
23 Audit Exhibit CAS-5. The depreciation rates were recommended by ORS Water

1 and Wastewater witness, Willie Morgan. ORS's total depreciation expense
2 amounted to \$232,150, less the per book amount of \$291,862, for a total adjustment
3 of (\$59,712).

4 Adjustment 20 – ORS proposes to adjust for payroll taxes associated with the
5 adjusted test year salaries. The payroll taxes include FICA, SUTA, and FUTA
6 taxes. ORS computed taxes of \$18,840, less the per book amount of \$26,255,
7 resulting in an adjustment of (\$7,415).

8 Adjustment 21 – ORS proposes to adjust gross receipts and utility taxes. Pro forma
9 revenues of \$1,131,299 were multiplied by the gross receipts factor of .003 for an
10 assessment of \$3,394, less the per book amount of \$9,773, resulting in a difference
11 of (\$6,379). Pro forma revenues of \$1,131,299 were multiplied by the
12 utility/commission tax of .0065919 for taxes of \$7,457, less the per book amount of
13 \$7,772, resulting in a difference of (\$315). The total adjustment for gross receipts
14 and utility taxes was (\$6,694).

15 Adjustment 22 – ORS proposes to adjust taxes other than income for various taxes.
16 Personal property tax was adjusted to remove vehicle taxes not related to TCWS of
17 (\$453). General tax was adjusted to remove 2007 accruals booked in 2008 totaling
18 \$141,885. Real estate tax was adjusted to remove an invoice out of the test year of
19 (\$105,653). The total adjustment for other taxes was \$35,779.

20 Adjustment 23 – ORS proposes to adjust income taxes after accounting and pro
21 forma adjustments. ORS used a 5% rate for state income taxes and a rate of 35%
22 for federal income taxes. Details of the computation of income taxes are shown in
23 CAS-6.

1 Adjustment 24 – ORS proposes to adjust the amortization of contributions in aid of
2 construction (“CIAC”). ORS used the gross per book CIAC amount of
3 (\$8,681,968) at 1.50%, for an amortization amount of (\$130,230), less the per book
4 amount of (\$173,350), for an adjustment of \$43,120. See Audit Exhibit CAS-5.

5 Adjustment 25 – ORS proposes to remove the income associated with capitalized
6 interest for projects under construction. TCWS does not propose to include
7 construction work in progress (“CWIP”) in rate base, and therefore, the income
8 associated with CWIP is not included as an offset to expenses. The adjustment
9 amounted to \$24,894.

10 Adjustment 26 – ORS proposes to adjust gross plant for net additions of
11 \$1,203,130 as of December 31, 2009. These additions were included since the
12 plant is known and measurable and providing service to present customers. Per
13 ORS witness Willie Morgan, pro forma plant items totaling \$561,547 have not yet
14 been completed, and therefore, will not be included in plant. Staff also proposes
15 to remove items from plant including plant to be paid by third parties of (\$1,397)
16 and items incorrectly capitalized of (\$309,575). The total adjustment amounts to
17 \$892,158.

18 Adjustment 27 – ORS proposes to book to plant the portion of operators’ salaries,
19 taxes, and benefits associated with capital projects for the test year. ORS’s
20 capitalized salary adjustment amounts to \$1,267 as calculated in ORS Adjustment
21 11.

22 Adjustment 28 – ORS proposes to adjust accumulated depreciation to reflect
23 items incorrectly capitalized of \$4,448 and double-booked wells of \$5,281, as

well as, depreciation of pro forma plant additions of (\$14,313), vehicles of \$68,559, computers of \$31,650, and general plant of \$61,708. The total adjustment amounts to \$157,333.

Adjustment 29 – ORS proposes to adjust cash working capital after accounting and pro forma adjustments. ORS computed cash working capital of \$95,361, less the per book amount of \$111,480, resulting in an adjustment of (\$16,119). See Audit Exhibit CAS-7.

Adjustment 30 – ORS proposes to adjust CIAC for the amortization of (\$43,120), as a result of ORS Adjustment 24.

Adjustment 31 – ORS proposes to adjust allowable interest expense to reflect the rate base after accounting and pro forma adjustments using the capitalization ratio of 53.30% for debt and 46.70% for equity and a cost of debt of 6.60%. ORS computed an adjustment of (\$37,946), resulting in allowable interest expense of \$104,812. See Audit Exhibit CAS-8 for ORS's computed interest expense. Details of the capital structure can be found in the testimony of ORS witness, Dr. Douglas H. Carlisle.

Adjustment 32 – Based upon ORS Water and Wastewater Department calculations, TCWS's proposed rates would produce additional revenues of \$79,902 for Water Operations and \$159,160 for Sewer Operations. Details of this adjustment are shown in direct testimony of ORS Water and Wastewater witness, Willie Morgan.

Adjustment 33 – ORS proposes to adjust for miscellaneous revenue associated with the Company's recalculated proposed rate increase. Details of the adjustment for

1 \$1,541 are shown in the direct testimony of ORS Water and Wastewater witness,
2 Willie Morgan.

3 Adjustment 34 – ORS proposes to adjust for uncollectible accounts associated with
4 the Company's recalculated proposed rate increase. The uncollectible expense was
5 provided by ORS Water and Wastewater witness, Willie Morgan.

6 Adjustment 35 – ORS proposes to adjust gross receipts and utility taxes associated
7 with the revenues after the proposed increase. ORS used a factor of .0095919,
8 which is comprised of the PSC and ORS factor of .0065919 and the Department
9 of Revenue's factor of .003. ORS's total adjustment is \$2,304 (\$240,147 x
10 .0095919).

11 Adjustment 36 – ORS proposes to adjust for income taxes associated with the
12 applicant's proposed rate increase. See Audit Exhibit CAS-6 for the computation
13 of income taxes.

14 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

15 **A.** Audit Exhibit CAS-5 shows the depreciation expense and amortization of
16 CIAC adjustment. Audit Exhibit CAS-6 shows the computation of income taxes.
17 Audit Exhibit CAS-7 shows the calculation of the cash working capital allowance.
18 Audit Exhibit CAS-8 shows the calculation of return on common equity.

19 **Q. DOES THE APPLICANT MAINTAIN ITS BOOKS AND RECORDS IN**
20 **ACCORDANCE WITH PSC RULES AND REGULATIONS?**

21 **A.** No. In Order No. 96-879, the Commission required TCWS to maintain its
22 books and records in accordance with the NARUC Uniform System of Accounts,
23 and the Applicant failed to comply. The Applicant recently converted its books and

1 records to a new accounting system. The new system does not reflect the usage of
2 the NARUC Uniform System of Accounts.

3 In April 2010, the Company sent the general ledger, trial balances, and other
4 records which included a column, inserted by the Company, showing the NARUC
5 numbering system. The Company did not maintain books and records using the
6 NARUC numbering system during the test year or provide this numbering system
7 promptly for the audit.

8 **Q. BASED ON THE ABOVE CONCERNS, DOES ORS HAVE ANY**
9 **RECOMMENDATIONS FOR THE APPLICANT?**

10 A. Yes. ORS recommends that the Applicant be required to maintain the
11 books and records of the water and wastewater operations of Tega Cay Water
12 Service, Inc. in accordance with the NARUC Uniform System of Accounts for
13 Class B Utilities.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2008
Combined Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>Operating Revenues:</u>					
Service Revenues - Water	366,602	(1,074) (A)	365,528	79,902 (CC)	445,430
Service Revenues - Sewer	736,879	3,331 (A)	740,210	159,160 (CC)	899,370
Miscellaneous Revenues	24,252	3,420 (B)	27,672	1,541 (DD)	29,213
Uncollectible Accounts	(7,790)	5,679 (C)	(2,111)	(456) (EE)	(2,567)
Total Operating Revenues	1,119,943	11,356	1,131,299	240,147	1,371,446
<u>Maintenance Expenses:</u>					
Salaries and Wages	195,275	(16,910) (D)	178,365	0	178,365
Purchased Power	54,879	0 (E)	54,879	0	54,879
Purchased Sewer & Water	(84,298)	80,152 (F)	(4,146)	0	(4,146)
Maintenance and Repair	230,065	13,813 (G)	243,878	0	243,878
Maintenance and Testing	37,380	(16,092) (H)	21,288	0	21,288
Chemicals	23,313	0 (I)	23,313	0	23,313
Transportation	37,915	(13,899) (J)	24,016	0	24,016
Operating exp. Charged to Plant	(52,642)	(1,267) (K)	(53,909)	0	(53,909)
Outside Services - Other	26,089	(492) (L)	25,597	0	25,597
Total	467,976	45,305	513,281	0	513,281
<u>General Expenses:</u>					
Salaries and Wages	105,000	(43,540) (M)	61,460	0	61,460
Office Supplies & Other Office Exp.	40,311	(1,272) (N)	39,039	0	39,039
Regulatory Commission Exp.	54,588	(40,270) (O)	14,318	0	14,318
Pension & Other Benefits	62,718	3,554 (P)	66,272	0	66,272
Insurance	27,675	0	27,675	0	27,675
Office Utilities	24,678	(592) (Q)	24,086	0	24,086
Miscellaneous	18,198	(1,444) (R)	16,754	0	16,754
Total	333,168	(83,564)	249,604	0	249,604
Depreciation	291,862	(59,712) (S)	232,150	0	232,150
Taxes Other Than Income	90,701	21,670 (T)	112,371	2,304 (FF)	114,675
Deferred Income Taxes - State & Fed	(22,833)	0	(22,833)	0	(22,833)
Income Taxes - State & Fed	2,411	16,450 (U)	18,861	90,976 (GG)	109,837
Amortization of CIAC	(173,350)	43,120 (V)	(130,230)	0	(130,230)
Total	188,791	21,528	210,319	93,280	303,599
Total Operating Expenses	989,935	(16,731)	973,204	93,280	1,066,484
Total Operating Income	130,008	28,087	158,095	146,867	304,962
Less: Interest During Construction	(24,894)	24,894 (W)	0	0	0
Net Income for Return	154,902	3,193	158,095	146,867	304,962
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	12,472,631	893,425 (X)	13,366,056	0	13,366,056
Accumulated Depreciation	(3,601,952)	157,333 (Y)	(3,444,619)	0	(3,444,619)
Net Plant in Service	8,870,679	1,050,758	9,921,437	0	9,921,437
Cash Working Capital	111,480	(16,119) (Z)	95,361	0	95,361
Contributions in Aid of Construction	(6,326,120)	(43,120) (AA)	(6,369,240)	0	(6,369,240)
Accumulated Deferred Income Taxes	(616,840)	0	(616,840)	0	(616,840)
Customer Deposits	(51,227)	0	(51,227)	0	(51,227)
Total Rate Base	1,987,972	991,519	2,979,491	0	2,979,491
Return on Rate Base	7.79%		5.31%		10.24%
Operating Margin	1.08%		4.71%		14.59%
Interest Expense	142,758	(37,946) (BB)	104,812		104,812

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2008
Water Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<u>Operating Revenues:</u>					
Service Revenues - Water	366,602	(1,074) (A)	365,528	79,902 (CC)	445,430
Miscellaneous Revenues	8,057	8,090 (B)	16,147	519 (DD)	16,666
Uncollectible Accounts	(2,588)	1,894 (C)	(694)	(152) (EE)	(846)
<u>Total Operating Revenues</u>	<u>372,071</u>	<u>8,910</u>	<u>380,981</u>	<u>80,269</u>	<u>461,250</u>
<u>Maintenance Expenses:</u>					
Salaries and Wages	98,295	(8,513) (D)	89,782	0	89,782
Purchased Power	6,595	0 (E)	6,595	0	6,595
Purchased Water	(84,298)	80,152 (F)	(4,146)	0	(4,146)
Maintenance and Repair	43,734	6,953 (G)	50,687	0	50,687
Maintenance and Testing	22,413	(8,101) (H)	14,312	0	14,312
Chemicals	11,735	0 (I)	11,735	0	11,735
Transportation	19,085	(6,995) (J)	12,090	0	12,090
Operating exp. Charged to Plant	(26,498)	(640) (K)	(27,138)	0	(27,138)
Outside Services - Other	13,132	(248) (L)	12,884	0	12,884
Total	<u>104,193</u>	<u>62,608</u>	<u>166,801</u>	<u>0</u>	<u>166,801</u>
<u>General Expenses:</u>					
Salaries and Wages	52,854	(21,918) (M)	30,936	0	30,936
Office Supplies & Other Office Exp.	20,291	(640) (N)	19,651	0	19,651
Regulatory Commission Exp.	27,478	(20,272) (O)	7,206	0	7,206
Pension & Other Benefits	31,570	1,789 (P)	33,359	0	33,359
Insurance	13,931	0	13,931	0	13,931
Office Utilities	12,422	(298) (Q)	12,124	0	12,124
Miscellaneous	9,160	(727) (R)	8,433	0	8,433
Total	<u>167,706</u>	<u>(42,066)</u>	<u>125,640</u>	<u>0</u>	<u>125,640</u>
Depreciation	81,853	(17,395) (S)	64,458	0	64,458
Taxes Other Than Income	42,653	9,100 (T)	51,753	770 (FF)	52,523
Deferred Income Taxes - State & Fed	(7,586)	0	(7,586)	0	(7,586)
Income Taxes - State & Fed	801	(7,925) (U)	(7,124)	30,409 (GG)	23,285
Amortization of CIAC	(42,933)	10,646 (V)	(32,287)	0	(32,287)
Total	<u>74,788</u>	<u>(5,574)</u>	<u>69,214</u>	<u>31,179</u>	<u>100,393</u>
<u>Total Operating Expenses</u>	<u>346,687</u>	<u>14,968</u>	<u>361,655</u>	<u>31,179</u>	<u>392,834</u>
<u>Total Operating Income</u>	<u>25,384</u>	<u>(6,058)</u>	<u>19,326</u>	<u>49,090</u>	<u>68,416</u>
Less: Interest During Construction	(5,079)	5,079 (W)	0	0	0
<u>Net Income for Return</u>	<u>30,463</u>	<u>(11,137)</u>	<u>19,326</u>	<u>49,090</u>	<u>68,416</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	2,653,429	581,256 (X)	3,234,685	0	3,234,685
Accumulated Depreciation	(740,755)	81,568 (Y)	(659,187)	0	(659,187)
Net Plant in Service	1,912,674	662,824	2,575,498	0	2,575,498
Cash Working Capital	39,319	(2,764) (Z)	36,555	0	36,555
Contributions in Aid of Construction	(1,576,239)	(10,646) (AA)	(1,586,885)	0	(1,586,885)
Accumulated Deferred Income Taxes	(338,729)	0	(338,729)	0	(338,729)
Customer Deposits	(25,786)	0	(25,786)	0	(25,786)
Total Rate Base	<u>11,239</u>	<u>649,414</u>	<u>660,653</u>	<u>0</u>	<u>660,653</u>
<u>Return on Rate Base</u>	<u>271.05%</u>		<u>2.93%</u>		<u>10.36%</u>
<u>Operating Margin</u>	<u>0.43%</u>		<u>-1.03%</u>		<u>9.79%</u>
<u>Interest Expense</u>	<u>28,852</u>	<u>(5,612) (BB)</u>	<u>23,240</u>		<u>23,240</u>

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2008
Sewer Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<u>Operating Revenues:</u>					
Service Revenues - Sewer	736,879	3,331 (A)	740,210	159,160 (CC)	899,370
Miscellaneous Revenues	16,195	(4,670) (B)	11,525	1,022 (DD)	12,547
Uncollectible Accounts	(5,202)	3,785 (C)	(1,417)	(304) (EE)	(1,721)
Total Operating Revenues	747,872	2,446	750,318	159,878	910,196
<u>Maintenance Expenses:</u>					
Salaries and Wages	96,980	(8,397) (D)	88,583	0	88,583
Purchased Power	48,284	0 (E)	48,284	0	48,284
Purchased Sewer & Water	0	0 (F)	0	0	0
Maintenance and Repair	186,331	6,860 (G)	193,191	0	193,191
Maintenance and Testing	14,967	(7,991) (H)	6,976	0	6,976
Chemicals	11,578	0 (I)	11,578	0	11,578
Transportation	18,830	(6,904) (J)	11,926	0	11,926
Operating exp. Charged to Plant	(26,144)	(627) (K)	(26,771)	0	(26,771)
Outside Services - Other	12,957	(244) (L)	12,713	0	12,713
Total	363,783	(17,303)	346,480	0	346,480
<u>General Expenses:</u>					
Salaries and Wages	52,146	(21,622) (M)	30,524	0	30,524
Office Supplies & Other Office Exp.	20,020	(632) (N)	19,388	0	19,388
Regulatory Commission Exp.	27,110	(19,998) (O)	7,112	0	7,112
Pension & Other Benefits	31,148	1,765 (P)	32,913	0	32,913
Insurance	13,744	0	13,744	0	13,744
Office Utilities	12,256	(294) (Q)	11,962	0	11,962
Miscellaneous	9,038	(717) (R)	8,321	0	8,321
Total	165,462	(41,498)	123,964	0	123,964
Depreciation	210,009	(42,317) (S)	167,692	0	167,692
Taxes Other Than Income	48,048	12,570 (T)	60,618	1,534 (FF)	62,152
Deferred Income Taxes - State & Fed	(15,247)	0	(15,247)	0	(15,247)
Income Taxes - State & Fed	1,610	24,375 (U)	25,985	60,567 (GG)	86,552
Amortization of CIAC	(130,417)	32,474 (V)	(97,943)	0	(97,943)
Total	114,003	27,102	141,105	62,101	203,206
Total Operating Expenses	643,248	(31,699)	611,549	62,101	673,650
Total Operating Income	104,624	34,145	138,769	97,777	236,546
Less: Interest During Construction	(19,815)	19,815 (W)	0	0	0
Net Income for Return	124,439	14,330	138,769	97,777	236,546
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	9,819,202	312,169 (X)	10,131,371	0	10,131,371
Accumulated Depreciation	(2,861,197)	75,765 (Y)	(2,785,432)	0	(2,785,432)
Net Plant in Service	6,958,005	387,934	7,345,939	0	7,345,939
Cash Working Capital	72,161	(13,355) (Z)	58,806	0	58,806
Contributions in Aid of Construction	(4,749,881)	(32,474) (AA)	(4,782,355)	0	(4,782,355)
Accumulated Deferred Income Taxes	(278,111)	0	(278,111)	0	(278,111)
Customer Deposits	(25,441)	0	(25,441)	0	(25,441)
Total Rate Base	1,976,733	342,105	2,318,838	0	2,318,838
Return on Rate Base	6.30%		5.98%		10.20%
Operating Margin	1.41%		7.62%		17.03%
Interest Expense	113,906	(32,334) (BB)	81,572		81,572

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2008

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>			
<u>Operating Revenues</u>			
(A) Service Revenues			
1 To adjust service revenues to reflect test year customer billings.			
Per ORS	2,257	(1,074)	3,331
Per TCWS	(954)	(3,938)	2,984
(B) Miscellaneous Revenues			
2 To adjust miscellaneous revenues to reflect an increase in late payment charges and account for revenue received by a third party vendor.			
Per ORS	3,420	8,090	(4,670)
Per TCWS	0	0	0
(C) Uncollectible Accounts			
3 To adjust uncollectible accounts to reflect accounting and pro forma adjustments to service revenues.			
Per ORS	5,679	1,894	3,785
Per TCWS	(7,767)	(5,243)	(2,524)
<u>Maintenance Expenses</u>			
(D) Salaries & Wages			
4 To annualize operators' salaries for the test year.			
Per ORS	(16,910)	(8,513)	(8,397)
Per TCWS	(40,714)	(20,494)	(20,220)
(E) Purchased Power			
5 ORS does not propose to adjust for inflation.			
Per ORS	0	0	0
Per TCWS	3,122	375	2,747
(F) Purchased Sewer & Water			
6 To adjust purchased water for a 2007 accrual and a 2007 payment booked in the test year.			
Per ORS	80,152	80,152	0
Per TCWS	80,152	80,152	0

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2008

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(G) Maintenance and Repair			
7 To adjust maintenance and repair expense to include items from plant that should have been expensed during the test year and remove the deferred maintenance account per Order No. 2006-582. ORS does not propose to adjust for inflation.			
Per ORS	13,813	6,953	6,860
Per TCWS	(5,305)	(6,771)	1,466
(H) Maintenance Testing			
8 To adjust maintenance testing expense to remove pass-through DHEC fees and undocumented expenses and to reflect actual billed DHEC amounts for operating permits.			
Per ORS	(16,092)	(8,101)	(7,991)
Per TCWS	(8,169)	(4,112)	(4,057)
(I) Chemicals			
9 ORS does not propose to adjust for inflation.			
Per ORS	0	0	0
Per TCWS	1,327	668	659
(J) Transportation			
10 To adjust for allocated transportation expenses including fuel and auto repairs. ORS does not propose to adjust for inflation.			
Per ORS	(13,899)	(6,995)	(6,904)
Per TCWS	(4,136)	(2,082)	(2,054)
(K) Operating Expenses Charged to Plant			
11 To adjust operating expense charged to plant (capitalized time) for actual salary expenses and associated taxes and benefits.			
Per ORS	(1,267)	(640)	(627)
Per TCWS	(6,997)	(3,522)	(3,475)
(L) Outside Services - Other			
12 To adjust outside service expenses for removal of undocumented expenses.			
Per ORS	(492)	(248)	(244)
Per TCWS	0	0	0

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2008

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
General Expenses			
(M) Salaries & Wages			
13 To annualize office salaries for the test year.			
Per ORS	(43,540)	(21,918)	(21,622)
Per TCWS	(23,393)	(11,775)	(11,618)
(N) Office Supplies & Other Office Expense			
14 To remove nonallowable amounts for awards, flowers, and miscellaneous items from office supplies and other office expenses. ORS does not propose to adjust for inflation.			
Per ORS	(1,272)	(640)	(632)
Per TCWS	2,294	1,155	1,139
(O) Regulatory Commission Expense			
15 To amortize rate case expenses over a five-year period.			
Per ORS	(40,270)	(20,272)	(19,998)
Per TCWS	30,796	15,502	15,294
(P) Pension & Other Benefits			
16 To annualize pension and other benefits associated with the adjusted test year salaries.			
Per ORS	3,554	1,789	1,765
Per TCWS	4,804	2,418	2,386
(Q) Office Utilities			
17 To adjust office utilities for undocumented expenses. ORS does not propose to adjust for inflation.			
Per ORS	(592)	(298)	(294)
Per TCWS	1,404	707	697
(R) Miscellaneous			
18 To adjust miscellaneous expense for undocumented expenses, penalties, and other nonallowables.			
Per ORS	(1,444)	(727)	(717)
Per TCWS	0	0	0
(S) Depreciation Expense			
19 To annualize depreciation expense for known and measurable plant in service.			
Per ORS	(59,712)	(17,395)	(42,317)
Per TCWS	(90,781)	(22,241)	(68,540)

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2008

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(T) Taxes Other Than Income			
20 To adjust payroll taxes associated with the adjusted test year salaries.			
Per ORS	(7,415)	(3,733)	(3,682)
Per TCWS	(6,917)	(3,482)	(3,435)
21 To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .0095919 (.003 for SCDOR and .0065919 for PSC/ORS).			
Per ORS	(6,694)	(5,178)	(1,516)
Per TCWS	(9,773)	(722)	(9,051)
22 To adjust personal property, general, and real estate taxes to reflect actual test year amounts.			
Per ORS	35,779	18,011	17,768
Per TCWS	35,779	18,011	17,768
Total Per ORS	<u>21,670</u>	<u>9,100</u>	<u>12,570</u>
(U) Income Taxes			
23 To adjust state and federal income taxes after accounting and pro forma adjustments. See Audit Exhibit CAS-6.			
Per ORS	<u>16,450</u>	<u>(7,925)</u>	<u>24,375</u>
Per TCWS	<u>(6,266)</u>	<u>(21,189)</u>	<u>14,923</u>
(V) Amortization of Contributions in Aid of Construction (CIAC)			
24 To annualize the amortization of CIAC expense.			
Per ORS	<u>43,120</u>	<u>10,646</u>	<u>32,474</u>
Per TCWS	<u>43,120</u>	<u>10,646</u>	<u>32,474</u>
(W) Interest During Construction (IDC)			
25 To eliminate IDC for rate making purposes. Construction work in progress was not included in rate base; therefore, IDC is eliminated as an addition to net income.			
Per ORS	<u>24,894</u>	<u>5,079</u>	<u>19,815</u>
Per TCWS	<u>24,894</u>	<u>5,079</u>	<u>19,815</u>

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2008

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(X) Gross Plant in Service			
26 To adjust gross plant in service for net additions documented as of December 31, 2009, remove items incorrectly capitalized, and remove plant to be paid for by third parties.			
Per ORS	892,158	580,616	311,542
Per TCWS	639,205	340,735	298,470
27 To capitalize salaries, taxes, and benefits associated with Operating Expenses Charged to Plant.			
Per ORS	1,267	640	627
Per TCWS	0	0	0
Total Per ORS	<u>893,425</u>	<u>581,256</u>	<u>312,169</u>
(Y) Accumulated Depreciation			
28 To reduce accumulated depreciation for pro forma plant retirements, items incorrectly capitalized, and plant to be paid by third party, as well as, adjust for depreciation for vehicles, computers, and general plant.			
Per ORS	<u>157,333</u>	<u>81,568</u>	<u>75,765</u>
Per TCWS	<u>382,435</u>	<u>44,427</u>	<u>338,008</u>
(Z) Cash Working Capital			
29 To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CAS-7.			
Per ORS	<u>(16,119)</u>	<u>(2,764)</u>	<u>(13,355)</u>
Per TCWS	<u>6,785</u>	<u>7,729</u>	<u>(944)</u>
(AA) Contributions in Aid of Construction (CIAC)			
30 To adjust CIAC to reflect the amortization of CIAC expense as a result of ORS Adjustment 24.			
Per ORS	<u>(43,120)</u>	<u>(10,646)</u>	<u>(32,474)</u>
Per TCWS	<u>(43,120)</u>	<u>(10,646)</u>	<u>(32,474)</u>
(BB) Interest Expense			
31 To adjust interest on debt using a 53.30% and 46.70% debt to equity ratio and 6.60% cost of debt. ORS computed allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit CAS-8.			
Per ORS	<u>(37,946)</u>	<u>(5,612)</u>	<u>(32,334)</u>
Per TCWS	<u>(38,172)</u>	<u>(15,011)</u>	<u>(23,161)</u>

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2008

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Proposed Increase</u>			
(CC) Service Revenues			
32 To adjust water and sewer service revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	239,062	79,902	159,160
Per TCWS	239,002	79,390	159,612
(DD) Miscellaneous Revenues			
33 To adjust miscellaneous revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	1,541	519	1,022
Per TCWS	0	0	0
(EE) Uncollectible Accounts			
34 To adjust for uncollectible accounts associated with the Company's proposed rate increase.			
Per ORS	(456)	(152)	(304)
Per TCWS	(3,381)	(1,714)	(1,667)
(FF) Taxes Other Than Income			
35 To adjust gross receipts and utility/commission taxes associated with the Company's proposed increase using a factor of .0095919 (.003 for SCDOR and .0065919 for PSC/ORS).			
Per ORS	2,304	770	1,534
Per TCWS	2,689	893	1,796
(GG) Income Taxes			
36 To adjust state and federal income taxes associated with the Company's proposed increase. See Audit Exhibit CAS-6.			
Per ORS	90,976	30,409	60,567
Per TCWS	86,883	28,640	58,243

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Depreciation and Amortization Expense Adjustment
For the Test Year Ended December 31, 2008

	<u>Combined Operations</u> \$	<u>Water Operations</u> \$	<u>Sewer Operations</u> \$
<u>Depreciation Adjustment</u>			
Gross Plant @ 12/31/08	12,472,631	2,653,429	9,819,202
Add:			
Net Plant Additions Adjustment @ 12/31/09	892,158	580,616	311,542
Capitalized Time from Wages Adjustment @ 12/31/08	1,267	640	627
Less:			
Organization @ 12/31/08	(244,495)	(123,079)	(121,416)
Land @ 12/31/08	(11,036)	(5,556)	(5,480)
Vehicles @ 12/31/08	(63,879)	(32,157)	(31,722)
Computers @ 12/31/08	(282,879)	(142,401)	(140,478)
<u>Net Plant</u>	12,763,767	2,931,492	9,832,275
 Plant Depreciation @ 1.5% (66.67 years)	<u>191,457</u>	<u>43,973</u>	<u>147,484</u>
 <u>Vehicles @ 12/31/08</u>	63,879	32,157	31,722
Less: Fully Depreciated Vehicles	<u>(14,503)</u>	<u>(7,301)</u>	<u>(7,202)</u>
	49,376	24,856	24,520
 Vehicle Depreciation @ 16.67% (6 years)	<u>8,230</u>	<u>4,143</u>	<u>4,087</u>
 <u>Computers @ 12/31/08</u>	282,879	142,401	140,478
Less: Fully Depreciated Computers	<u>(23,177)</u>	<u>(11,667)</u>	<u>(11,510)</u>
	259,702	130,734	128,968
 Computer Depreciation @ 12.5% (8 years)	<u>32,463</u>	<u>16,342</u>	<u>16,121</u>
 Total Depreciation	<u>232,150</u>	<u>64,458</u>	<u>167,692</u>
 Less: Per Books Depreciation	<u>291,862</u>	<u>81,853</u>	<u>210,009</u>
 ORS Adjustment	<u>(59,712)</u>	<u>(17,395)</u>	<u>(42,317)</u>
 Company's Adjustment	<u>(90,781)</u>	<u>(22,241)</u>	<u>(68,540)</u>
 <u>Amortization of CIAC Adjustment</u>			
Gross CIAC @ 12/31/08	(8,681,968)	(2,152,450)	(6,529,518)
 CIAC Amortization @ 1.5% (66.67 years)	(130,230)	(32,287)	(97,943)
 Less: Per Books Amortization of CIAC	<u>(173,350)</u>	<u>(42,933)</u>	<u>(130,417)</u>
 ORS Adjustment	<u>43,120</u>	<u>10,646</u>	<u>32,474</u>
 Company's Adjustment	<u>43,120</u>	<u>10,646</u>	<u>32,474</u>

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2008

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,131,299	380,981	750,318
Operating Expenses	<u>977,176</u>	<u>376,365</u>	<u>600,811</u>
Net Operating Income Before Taxes	154,123	4,616	149,507
Less: Annualized Interest Expense	<u>104,812</u>	<u>23,240</u>	<u>81,572</u>
Taxable Income - State	49,311	(18,624)	67,935
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	2,466	(931)	3,397
Less: State Income Taxes Per Book	<u>(5,855)</u>	<u>(1,945)</u>	<u>(3,910)</u>
Adjustment to State Income Taxes	<u>8,321</u>	<u>1,014</u>	<u>7,307</u>
Taxable Income - Federal	46,845	(17,693)	64,538
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	16,395	(6,193)	22,588
Less: Federal Income Taxes Per Book	<u>8,266</u>	<u>2,746</u>	<u>5,520</u>
Adjustment to Federal Income Taxes	<u>8,129</u>	<u>(8,939)</u>	<u>17,068</u>
Total Adjustment to Income Taxes	<u>16,450</u>	<u>(7,925)</u>	<u>24,375</u>
After Applicant's Proposed Increase			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,371,446	461,250	910,196
Operating Expenses	<u>979,480</u>	<u>377,135</u>	<u>602,345</u>
Net Operating Income Before Taxes	391,966	84,115	307,851
Less: Annualized Interest Expense	<u>104,812</u>	<u>23,240</u>	<u>81,572</u>
Taxable Income - State	287,154	60,875	226,279
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	14,358	3,044	11,314
Less: State Income Taxes As Adjusted	<u>2,466</u>	<u>(931)</u>	<u>3,397</u>
Adjustment to State Income Taxes	<u>11,892</u>	<u>3,975</u>	<u>7,917</u>
Taxable Income - Federal	272,796	57,831	214,965
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	95,479	20,241	75,238
Less: Federal Income Taxes As Adjusted	<u>16,395</u>	<u>(6,193)</u>	<u>22,588</u>
Adjustment to Federal Income Taxes	<u>79,084</u>	<u>26,434</u>	<u>52,650</u>
Total Adjustment to Income Taxes	<u>90,976</u>	<u>30,409</u>	<u>60,567</u>

Tega Cay Water Service, Inc.
Docket No. 2009-473-WS
Return on Equity
Capital Structure at December 31, 2008

Combined Operations

Description	(Note) Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	53.30%	6.60%	3.52%	\$ 69,933	\$ 1,588,068	6.60%	3.52%	\$ 104,812	\$ 1,588,068	6.60%	3.52%
Common Equity	157,737,014	46.70%	9.15%	4.27%	84,969	1,391,422	3.83%	1.79%	53,283	1,391,422	14.38%	6.72%
Totals	\$ 337,737,014	100.00%	7.79%		\$ 154,902	\$ 2,979,491		5.31%	\$ 158,095	\$ 2,979,491		10.24%

Water Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	53.30%	6.60%	3.53%	\$ 395	\$ 352,128	6.60%	3.52%	\$ 23,240	\$ 352,128	6.60%	3.52%
Common Equity	157,737,014	46.70%	572.83%	267.52%	30,068	308,525	-1.27%	-0.59%	(3,914)	308,525	14.64%	6.84%
Totals	\$ 337,737,014	100.00%	271.05%		\$ 30,463	\$ 660,653		2.93%	\$ 19,326	\$ 660,653		10.36%

Sewer Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	53.30%	6.60%	3.52%	\$ 69,538	\$ 1,235,941	6.60%	3.52%	\$ 81,572	\$ 1,235,941	6.60%	3.52%
Common Equity	157,737,014	46.70%	5.95%	2.78%	54,901	1,082,897	5.28%	2.46%	57,197	1,082,897	14.31%	6.68%
Totals	\$ 337,737,014	100.00%	6.30%		\$ 124,439	\$ 2,318,838		5.98%	\$ 138,769	\$ 2,318,838		10.20%

Note: ORS used the capital structure of the parent company, Utilities, Inc.

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2009-473-WS

IN RE:

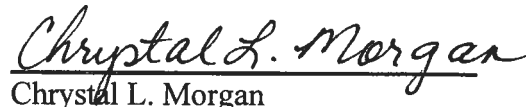
Application of Tega Cay Water Service,
Incorporated for Adjustment of Rates and
Charges (Letter of Intent)

)
) **CERTIFICATE OF**
) **SERVICE**
)

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **DIRECT TESTIMONY AND EXHIBITS OF CHRISTINA A. STUTZ, WILLIE J. MORGAN, AND DOUGLAS H. CARLISLE** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

James E. Sheedy, Esquire
Susan E. Driscoll, Esquire
City of Tega Cay, South Carolina
Driscoll Sheedy, P.A.
11520 N. Community House Rd., Suite 200
Charlotte, NC, 28277

John M.S. Hoefer, Esquire
Benjamin P. Mustian, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC, 29202-8416


Chrystal L. Morgan

June 8, 2010
Columbia, South Carolina